Alberta economic trends

May 2012

Alberta's economy continues to thrive amid global uncertainty

The Alberta economy is experiencing a solid expansion. Last year, Alberta led all provinces with growth in GDP by Industry of 5.2%, as highlighted in the Infocus section of this issue.

Indicators of business activity remain strong, while households are benefiting from a robust labour market and earnings growth that, while moderating, continues to outpace the national average.

Key Indicators All indicators seasonally adjusted unless otherwise indicated.

Indicator	Latest Month	Value	Change year-over-year (y/y)
Employment (thousands)	April	2,143	3.9%
Unemployment Rate	April	4.9%	-1.0p.p.
CPI Inflation	April	0.8%	-2.2p.p.
Retail Sales	March	$5.63B	+9.0%
Housing Starts (annualized)	April	37,300	+68.8%
Rigs Drilling (unadjusted)	April	141	+14.4%
Manufacturing Shipments	March	$6.4B	+13.0%
Exports	March	$8.8B	+11.1%

Source: Statistics Canada, CMHC p.p.= percentage points.

Global Economy

US expansion continues at a moderate pace while tensions in Europe resurface

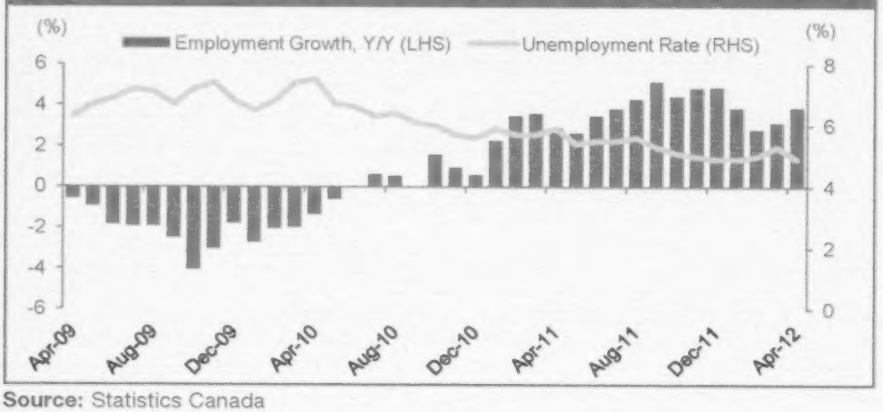
US economic growth eased somewhat in early 2012. The 2.2% first quarter GDP gain came slightly below expectations, and down from 3% in the final quarter of 2011.

In the US labour market, the pace of job creation has lost some steam. After two monthly gains of over 200,000 to start 2012, employment growth slowed in March and April to 154,000 and 115,000, respectively. The unemployment rate sits at a 3 year low of 8.1%, but much of this reflects weak participation in the labour force. Last month, the labour force participation rate fell to 63.6%, a 30-year low.

The Eurozone economy remains weak, though first quarter GDP growth came in slightly higher than many economists had expected. Fueled by gains in Germany, the Eurozone recorded positive, albeit very modest, growth, narrowly escaping a technical recession (defined as two quarters of negative growth).

However, after a period of relative calm to start 2012, elections in Greece and France have called into question government commitments to fiscal austerity plans. Financial markets, which have long questioned Greece's fiscal sustainability, now see a Greek exit as increasingly likely. Commodity and equity markets have reacted negatively to the latest bout of uncertainty. In response to the ongoing crisis, European leaders have recently emphasized the need to balance austerity with measures to promote economic growth.

Chart 1: Alberta Employment Growth and the Unemployment Rate



Source: Statistics Canada

Business Sector

Business activity advances at a solid pace in the first quarter

A number of first quarter indicators point to continued strength in Alberta business activity. Manufacturers saw shipments soar 14.6% last quarter compared to the same time last year (y/y), propelled by gains in machinery, fabricated metals, and refined petroleum. Shipments are on a clear upward trend, rising in every quarter since mid 2009. Farmers also had a strong start to the year, with crop sales powering farm cash receipts to a new record high in the first quarter. Farm receipts stand 28.3% over 2011 first quarter levels.

Strong business activity is also reflected in Alberta's trade performance. Exports registered a first quarter gain of 14.5% y/y. While this represents a slowdown from the +20% y/y pace in the previous two quarters, it

is still well above the 5-year average quarterly gain of 8.1% y/y .

Oil prices fall back

Renewed uncertainty in Europe has contributed to recent declines in oil prices. This month the price of West Texas Intermediate (WTI) oil is on track to average below US$100/barrel for the first time since December 2011. Meanwhile, the differential between the North American benchmark price (WTI) and the world benchmark price (Brent) has widened significantly over the last year and a half, owing to rising supplies in the US mid-west. In addition, Alberta's benchmark heavy crude, Western Canada Select (WCS), has recently fallen to more than US$30/bbl below WTI as of April, double its three year average discount.

So far this year, the price environment has remained supportive of oil related activity. The number of rigs drilling in Alberta in the first four months is up 4.7% y/y.

Household Sector

Earnings outpacing inflation so far this year

Alberta weekly earnings are the highest in Canada and continue to outpace the national earnings growth. Strong earnings have, in turn, supported gains in retail spending (see Box below). Earnings growth has, however, eased somewhat in the two most recent months of data: to 2.5% y/y in January and 2.7% y/y in February. This is below the robust 5-year average pace of 4.3% y/y, and the first time in 22 months that earnings have grown less than 3% y/y.

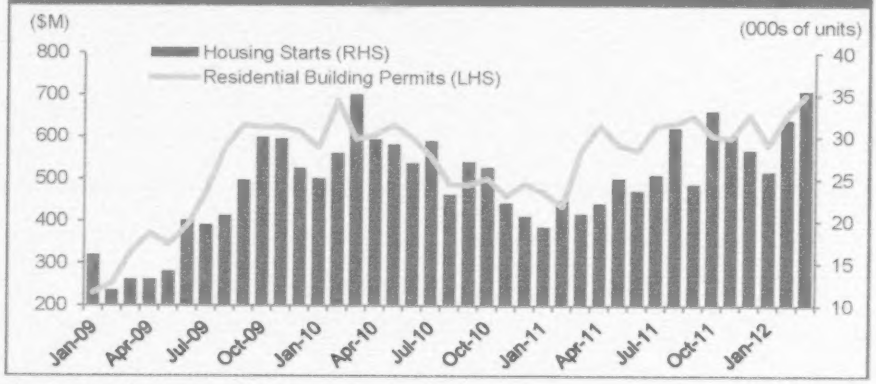
Overall, earnings growth has more than offset increases in consumer prices this year. Alberta's inflation rate has fallen in every month since October 2011, thanks to an easing of energy price pressures, particular from electricity and natural gas. In April, Alberta's consumer inflation rate dipped to a 16 month low of 0.8%, the lowest rate of all provinces.

Job gains hit nine month high

Alberta created 10,700 net jobs in April, the largest one-month increase since last July. In the first four months of 2012, Alberta led the nation with employment growth of 3.4%y/y. Indeed, the province has accounted for 70,700 of the 165,100 net positions created in Canada over this time frame. Alberta's leading growth industry so far in 2012 has been oil, gas & forestry, which has seen employment increase 26,700 over the first four months of 2011.

With more jobs added, Alberta's unemployment rate dropped to 4.9% in April. The rate has held fairly stable over the past eight months, moving between 5.3% and 4.9%.

Chart 2: Alberta Housing Starts and Residential Permits



Source: Statistics Canada

Alberta housing market is picking up

Strong interprovincial migration and a robust labour market has supported increased demand for houses in Alberta. In the first quarter of 2012, housing completions increased over the same time last year, while unabsorbed housing units, a measure of new home builds that are not occupied, declined. In the resale housing market, sales of existing home are trending upwards, rising in each of the last six quarters.

Alberta continues to inch closer to a sellers' market. Alberta's sales-to-new listings ratio, an indicator of market conditions, sits at 0.58 as of April and has increased in each of the last seven quarters. A reading of 0.60 or above signals a sellers' market.

Home builders have responded to the improving market conditions. Housing starts in the first four months of the year are up more than 50% y/y, although this is partly due to weak home construction in early 2011 that was partly caused by cold winter conditions. April's reading of 37,300 (Seasonally Adjusted Annual Rate) was Alberta's highest reading in four years.

Residential building permits, a leading indicator of home construction and renovation activity, was also strong in the first quarter of 2012, rising 38% y/y.

Albertans loosen their purse strings

A robust labour market and healthy wage gains is supporting strong levels of consumer spending in Alberta. Retail sales were up a sharp 9.7% in the first quarter of 2012 over the same time last year, more than double the Canadian increase of 4.3%.

Looking at the components, some of the highest growth has come from more discretionary purchases. In the first quarter, solid gains were reported at sporting goods, video game, book & music stores (+12% y/y), jewlery, luggage & leather goods stores (+15% y/y), and motor vehicle and parts stores (+20% y/y).

Albertans are also spending more dining out, according to seperate survey data collected by Statistics Canada. Spending at food services and drinking places was up a sharp 11% in the first two months of 2012 from the same period last year. In 2011, the average Albertan spent $158 at these establishments per month, about $35 more than the average Canadian.

Alberta GDP by Industry jumps in 2011

Alberta's real GDP growth was estimated at 5.2% in 2011, according to initial estimates from Statistics Canada. This represents the strongest increase of all provinces and Alberta's highest growth rate since 2006.

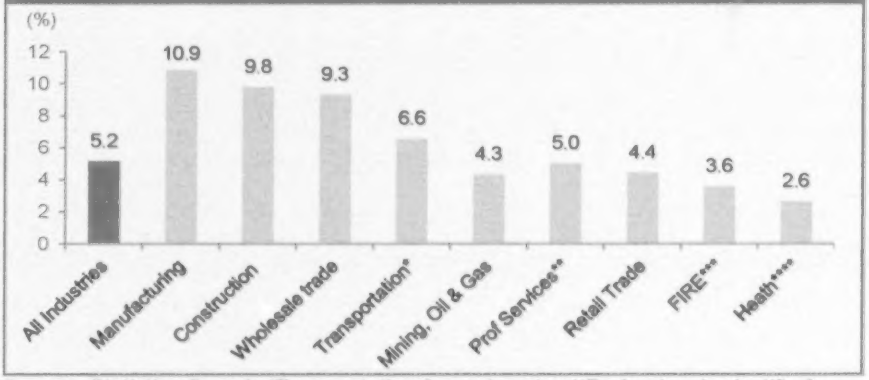
Strong growth seen by many sectors

As a resource rich province, Alberta benefits greatly from activity in the oil and gas sector. High oil prices in recent years have supported significant investments in Alberta's oil sands and a more recent resurgence in conventional oil. This activity has been a catalyst in the province, helping drive growth for many industries, such as manufacturing, construction, wholesale trade, and transportation.

Manufacturing leads the way

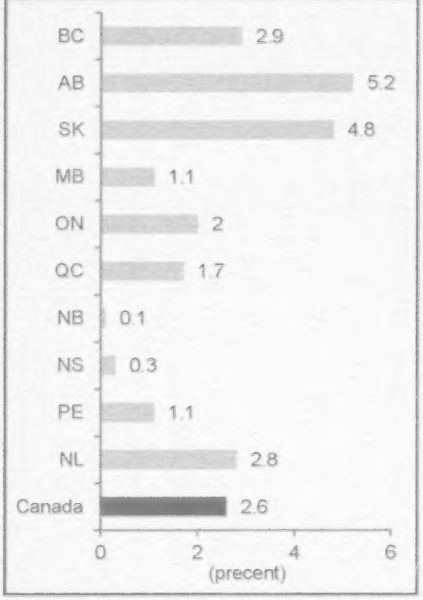
The manufacturing sector has leveraged knowledge and technology from Alberta's oil and gas sector. At 10.9% growth, the manufacturing sector led all sectors in real GDP growth last year. Within the sector, machinery manufacturing, including mining and oil gas field machinery, and fabricated metal, posted especially large increases. These gains were supported by significant improvements in shipments in 2011, as highlighted in the April edition of Economic Trends. In particular, exports from the machinery industry outpaced almost all other industries, including oil and gas extraction, with demand coming from other major resource producers like the US, the UAE, Russia, Australia, and Norway.

Chart 1: Alberta Real GDP Growth by Major Sector, 2011



Source: Statistics Canada. *Transportation & warehousing; **Professional,scientific & technical services; ***Finance, insurance, real estate & renting; ****Incl. social assistance

Chart 2: Real GDP by Industry Growth, 2011



Source: Statistics Canada

Energy related investment powers construction gains

The construction sector was a strong performer last year, aided by record capital investment in the oil and gas sector. The construction sector was almost entirely fuelled by an impressive 33% increase in oil and gas engineering construction. The gain was more than enough to offset real GDP declines in residential and non-residential construction.

Alberta records fastest growth in Canada across several sectors

Alberta's nation-leading GDP growth reflects gains across many sectors. Of all provinces in 2011, Alberta had the fastest or second fastest increase in 16 out of the 18 major sector categories. While some provinces saw growth that was more concentrated in particular sectors, Alberta saw relatively broad-based gains.

Alberta's strong performance is not confined to just one year. Indeed, over the most recent 10 year period, Alberta has seen the second strongest overall GDP growth after Newfoundland and has been a growth leader across a broad range of industries, from Finance and Insurance to Manufacturing. Many sectors have posted strong average growth over the past 10 years, expanding along with the mining, oil & gas sector in response to industrial demand and a growing population that increased demand for goods and services.

The mining, oil & gas sector continues to contribute the most to Alberta's GDP

As part of its GDP by Industry release, Statistics Canada provides data on the share of GDP coming from each industry, as measured in current prices. This information gives an indication of how much each industry is contributing to Alberta's total GDP, and how this share is changing over time.

What is GDP by Industry?

Gross Domestic Product (GDP) by Industry measures the value of output generated by an industry less the value of intermediate inputs purchased from other industries. GDP is sometimes referred to as "value added" as it captures how much value is being added over and above what is used as input. The sum of each industry's GDP yields the GDP for the overall economy.

Alberta's 2011 provincial accounts estimate of GDP, which breaks down GDP by expenditure category and income type, will be released in November. While this estimate differs slightly from total GDP by Industry, growth in the two series track very closely over time.

The mining, oil & gas extraction sector accounted for almost 28% of Alberta's GDP by Industry in 2011, the largest contributing sector by a significant margin. This sector has historically been Alberta's largest contributor, to GDP, but its share has also been volatile, reaching 33% in 2005 then falling to 23% in 2009 before moving up again in the last two years. The other sectors making major contributions to GDP include construction, manufacturing, and the finance, insurance, and real estate sector. The contributions from nearly all sectors have stayed fairly stable through the years; the key exceptions have been construction, which has been increasing, and manufacturing, which has declined slightly.

Declining contribution from manufacturing across Canada

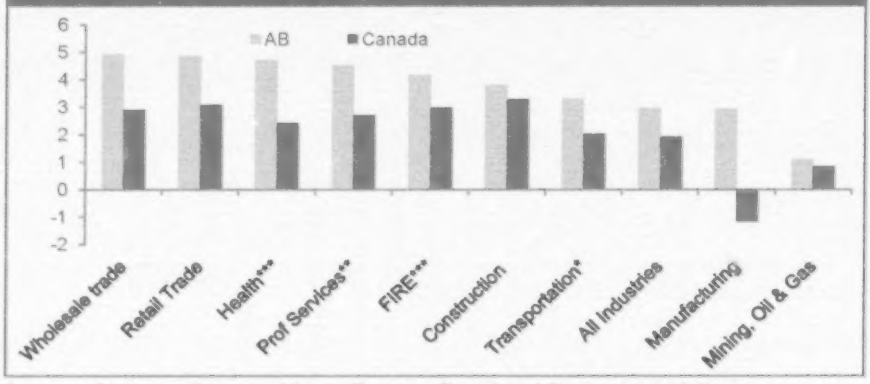
At the national level, one noticeable trend has been the declining contribution of manufacturing to economic output. Most of the provinces have seen a decline in manufacturing's share of GDP over time, with some seeing the share fall almost 10 percentage points between 2002 and 2011. The weakness from manufacturing is not unique to Canada, and has occurred across many advanced economies. It reflects a number of challenges including competition from lower-cost producers, the increasing importance of the service industries, and in recent years sluggish global demand.

Alberta has seen a less pronounced decline in manufacturing's share of GDP, from 8.7% to 6.4% over the last 10 years. The sector's real GDP has grown by 2.4% a year since 2002, compared to a more than 1% per year national decline. While Alberta's manufacturing sector has faced many of the same challenges as other provinces, including a stronger Canadian dollar, it has capitalized on the strong global demand for commodities, and the related growth in the energy sector.

Summary

Overall, the latest GDP by Industry estimates reveal that Alberta's economy performed very well in 2011 and over the past 10 years, especially when compared to other provinces. This strength has been fairly broad-based, reflecting nation-leading gains across a number of industry sectors.

Chart 3: Average Real GDP by Industry Growth by Major Sector, 2002-2011



Source: Statistics Canada, Alberta Treasury Board and Finance calculations. See Chart 1 notes.

Table 1: Alberta real GDP Growth and Provincial Rankings

	2011		2002-2011	
	Growth Rate	Prov. Rank	Avg. Growth Rate	Prov. Rank
All Industries	5.2%	1	2.8%	2
Agriculture, forestry, fishing and hunting	4.2%	4	4.9%	2
Mining and oil and gas extraction	4.3%	5	1.1%	6
Utilities	10.0%	2	2.8%	4
Construction	9.8%	2	3.5%	6
Manufacturing	10.9%	1	2.4%	1
Wholesale trade	9.3%	1	4.5%	2
Retail Trade	4.4%	2	5.2%	1
Transportation and warehousing	6.6%	2	3.1%	1
Information and Culture	2.3%	2	3.9%	1
Finance and insurance, Real estate and rental leasing	3.6%	2	4.3%	1
Professional science and tech	5.0%	1	4.6%	1
Administrative and support, waste management and remediation services	2.6%	1	4.7%	3
Educational services	1.7%	2	3.1%	1
Healthcare, social assistance	4.7%	1	4.7%	1
Arts, entertainment, recreation	1.5%	1	3.0%	1
Accommodation & food services	7.8%	1	2.4%	1
Other services	3.4%	2	3.9%	1
Public Administration	1.4%	2	3.1%	1

Source: Statistics Canada, Alberta Treasury Board and Finance calculations

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